



# A PERFORMANCE AUDIT OF THE UTAH RETIREMENT SYSTEMS' ASSUMED INVESTMENT RATE OF RETURN



Office of the  
Utah State Auditor

# Mission Statement

We provide Utah taxpayers and government officials with an independent assessment of financial operation, statutory compliance, and performance management for state and local government.



# Audit Team

- David Pulsipher – Audit Director
- David Stringfellow – Chief Economist
- Rachel Dyer



# Scope

Determine if the assumed investment rate of return reasonably predicts plan solvency for the noncontributory pension system



# Background

- URS Board establishes an assumed investment rate of return
  - Unrealistic rate = underfunded system
  - Insufficient rate = opportunity cost
- Current assumed rate: 7.50%



# Finding:

## Assumed Rate of Return Appears Optimistic

---

- Based on URS' actuarial data there is only a 43% probability of realizing its 7.50% return
- One optimistic forecast inflates the simple average investment return
  - When eliminated, there is only a 38% probability of realizing 7.50% return



# Average Investment Returns

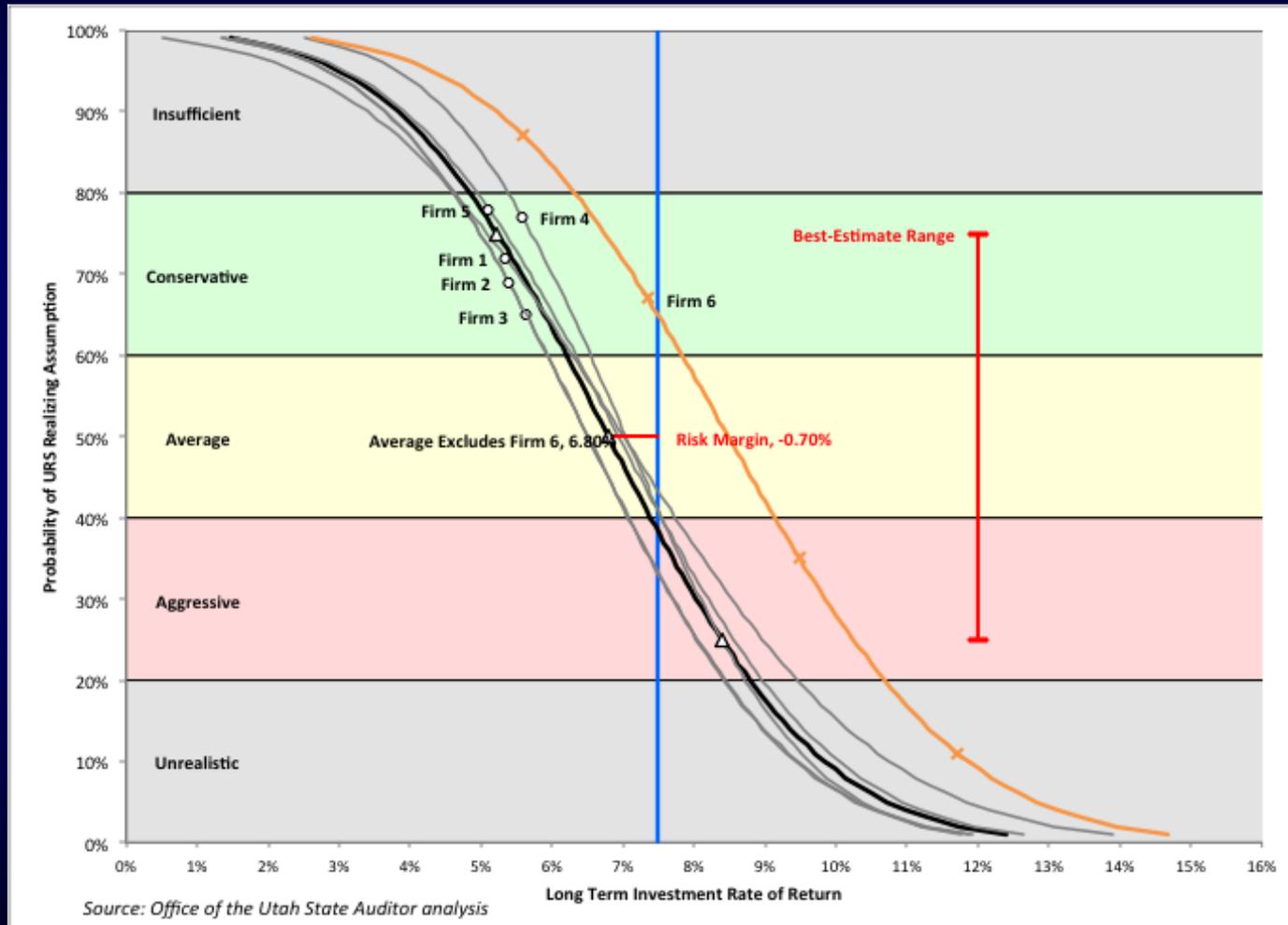
Investment Consultant	Expected Nominal Return	Inflation Assumption	Expected Real Return	Actuary Inflation Assumption	Expected Nominal Return	Plan Incurred Expense Assumption	Expected Nominal Return Net of Expenses
1*	7.90%	2.50%	5.40%	2.75%	8.15%	0.35%	7.80%
2	7.59%	3.00%	4.59%	2.75%	7.34%	0.35%	6.99%
3	7.35%	2.75%	4.60%	2.75%	7.35%	0.35%	7.00%
4	7.43%	2.40%	5.03%	2.75%	7.78%	0.35%	7.43%
5	7.54%	2.50%	5.04%	2.75%	7.79%	0.35%	7.44%
6	8.71%	2.02%	6.69%	2.75%	9.44%	0.35%	9.09%
Average	7.75%	2.53%	5.23%	2.75%	7.98%	0.35%	7.62%
Average Excluding Firm 6**	7.56%	2.63%	4.93%	2.75%	7.68%	0.35%	7.33%

\*URS consultant

\*\*Auditor analysis



# Median Expected Investment Returns



Were you aware of the low probability of achieving a 7.5% average rate of return?

If not, why not?



# Finding:

## Transparency Would Increase Risk Awareness

- URS is the only western public employee retirement system that maintains confidentiality over actuarial assumptions
- URS claims to be exempt from:
  - *Open and Public Meetings Act*
  - *Government Records Access and Management Act*



# URS Lacks Transparency

System	Are board meetings open to the public?	Are actuarial reports & assumptions available to the public?
Arizona State Retirement System	Yes	Yes
California Public Employees Retirement System	Yes	Yes
Colorado State Employees Retirement System	Yes	Yes
Idaho Public Employee Retirement System	Yes	Yes
Montana Public Employees Retirement Board	Yes	Yes
New Mexico Public Employees Retirement Association	Yes	Yes
Nevada Public Employees Retirement System	Yes	Yes
Oregon Employees Retirement System	Yes	Yes
Utah Retirement Systems	No	No
Washington Department of Retirement Systems	Yes	Yes
Wyoming Retirement System	Yes	Yes
<i>Source: SAO Analysis</i>		



# GASB Recommendation

“The following information should be disclosed about the discount rate:

The long-term expected rate of return on pension plan investments and a brief description of how it was determined, including significant methods and assumptions used for that purpose”

GASB Statement 68-78(c)



When others freely disclose their pension analysis and assumption information, why is URS withholding it from the public and policymakers?



# Finding: Unrealized Rates Demand Increased Contributions

<b>Assumed Investment Rate of Return</b>	<b>Contribution Rate</b>	<b>Immediate Ongoing Budgetary Impact (in millions)*</b>
7.50%	20.46%	-
7.25%	22.23%	\$54
7.00%	24.06%	\$110
6.75%	25.95%	\$168
6.50%	27.93%	\$228

*\*Fund 16 (Noncontributory State and School Fund)*  
*Source: GRS*



# Recommendations

- The URS Board lower the system's assumed investment rate of return
- URS provide stakeholders with the probability of realizing rates of return with each actuarial experience study



# Recommendations

- The Legislature clarify statute to require URS to comply with OPMA and GRAMA
- URS immediately provide stakeholders with assumptions and methodology used to calculate the assumed investment rate of return



# Recommendations

- The Legislature increase the contribution rate to reflect a lower assumed investment rate of return that has a greater probability of realizing actual returns
- The Legislature fund the retirement system according to the desired level of risk assumed in the expected investment rate of return





# QUESTIONS?

[auditor.utah.gov](http://auditor.utah.gov)



Office of the  
**Utah State Auditor**